

AttendeesCo-Conveners:

Stephen Bernath & Craig Partridge

Workgroup Members:

John Arum, Cathy Baker, Tim Boyd, Clare Breidenich, Michelle Connor, Jessica Coven (for Miguel Perez Gibson), Kyle Davis, Nancy Hirsh (for Danielle Dixon), Edie Sonne Hall, Llewellyn Matthews, Adrian Miller (for Debora Munguia), John Miller, Kevin Raymond, Phil Rigdon, Bill Robinson, George Schunk, Steve Stinson. Absent: Nina Carter.

Guests:

Spencer Reeder, Ecology

Alexia Kelly, The Climate Trust

Ara Erickson, UW College of Forest Resources

Doug Peters, Department of Community, Trade, and Economic Development (CTED)

Staff support:

Jerry Boese and Andy Chinn, Ross & Associates Environmental Consulting

Background Documents for this meeting are available online at

http://www.ecy.wa.gov/climatechange/2008FA_for.htm

Introductions and General Workgroup Business

Co-conveners Stephen Bernath and Craig Partridge updated the Workgroup on membership changes as well as general business:

- George Schunk of Ecotrust has joined the group at the behest of Jay Manning and Janice Adair. George introduced himself and described Ecotrust's unique position as both a conservation group and a landowner. Bettina Von Hagen from Ecotrust will be George's alternate to the Workgroup.
- The Workgroup charter was amended at the last meeting to allow for the designation of alternates. Workgroup members were asked to send the names of additional alternates to Jerry Boese or Andy Chinn.
- Heath Packard has left Audubon Washington and will no longer be a member of the Workgroup. Nina Carter from Audubon will take his place.
- The Ecology webpage for the Forestry Workgroup is live with agendas and other important documents.
- A Workgroup member requested that the meeting scheduled for September 25 be moved to September 23 to avoid a conflict with the policy summit for the Association of Washington Businesses. There were no objections.
- The scope of work for Ecology's contract awarded to UW College of Forest Resources will be distributed to Workgroup members.
- Jerry Boese of Ross & Associates pointed out that there have been some communications occurring between Workgroup members and the offices of Jay Manning and Janice Adair at Ecology. While this communication was initiated before the Workgroup formally began its work, Jerry requested that in the future

all discussion related to the workgroup's scope be channeled through the workgroup.

Updates on Western Climate Initiative (WCI) and Climate Action Team (CAT)

WCI Update

The Workgroup was briefed on a recent letter submitted by the Oregon Forest Carbon Stakeholders Working Group to the WCI to demonstrate the progress that the Oregon subgroup has made, provide an update on current topics of interest, and to solicit feedback on whether or not the group is moving in a constructive direction. The initial feedback is that WCI is interested in a specific protocol to examine and that WCI must look at any proposed definition of a baseline in context. The co-conveners reminded the Workgroup that the intent is to work in a complementary manner to the Oregon group in order to be as efficient as possible.

- Workgroup members may contact Andy Chinn at Ross & Associates if they wish to be added to the e-mail distribution list for the Oregon group.

2008 CAT Update

At the first meeting of the 2008 CAT, Craig Partridge and Clare Breidenich provided brief remarks on the 2008 Forest Sector Workgroup, describing the overall plan and the group's attention to market mechanisms. CAT members encouraged the group to discuss non-market mechanisms within the "most promising strategies" from the 2007 CAT. At the same time, CAT members acknowledged the limited time frame in which the group was operating.

Workgroup Charter Revisions

Jerry Boese reviewed the charter revisions suggested at the last workgroup meeting. Workgroup members approved the revisions.

Discussion of Draft Common Interests Document

At the first Workgroup meeting (April 30), representatives of the environmental/conservation caucus presented a draft principles document for the group to consider as a foundational element. Following the first meeting, a volunteer subgroup met to draft a revised principles document, renamed "common interests." The subgroup agreed upon the importance of being grounded in common interests and embarked on an exercise to capture them in writing for future reference if and when the group becomes stalled in the details of a design element. The document was purposely written to be ambiguous enough to incorporate multiple worldviews and allow positions to be argued over time. The drafting group highlighted two aspects of the document in particular:

- A potential sixth bullet on WCI definitions was removed because subgroup members could not agree on the various definitions.
- With respect to the concept of incentives (in the third bullet), the primary intent is to ensure that there are no *disincentives*: In other words no negative impacts on climate or industry. Participation in a cap and trade program has the potential to be an incentive for a landowner, but not the only one and there may be

programs or policy suggestions that make sense for climate change mitigation and keeping working forests on the landscape but that do not necessarily fit into a regulatory program. From the perspective of family foresters, incentives are being held up as a solution to keeping family forests as a viable land base.

Group members provided the following comments on the draft common interests document:

- Greenhouse gas (GHG) reduction measures should be supported to the extent that science describes as necessary, which is what drives the rigor of the process. A sixth bullet on definitions for a market system would be advantageous since a well-designed market system is the best way of achieving GHG reductions.
- A market system will not by itself capture all of the climate benefits provided by forestry. It would be better not to limit the discussion to a market based system and recognize that a system or systems can include many different programs.
- Bullet four of the draft document refers to forest *landowners*; it should be broadened to forest *industry*. Bullet five should include the word economic to read "...unintended *economic* and environmental consequences..."

Co-convener Stephen Bernath held an ad hoc side meeting with group members interested in making modifications to the document. Stephen presented the changes to the full group, which approved the revised document.

Discussion of "Conceptual Framework for Forest Offsets and Priority Items for Workgroup Attention"

Jerry Boese provided a summary of the document "Conceptual Framework for Forest Offsets and Priority Items for Workgroup Attention."

Group members provided the following comments on the draft Conceptual Framework for Forest Offsets document:

- The document's title makes it appear limited to offsets and should include room for alternatives. The group agreed that "and credits" should be added to the title.
- In the interest of efficiency, portions of item five (credits for avoided emissions from fire and other natural disturbances) could be covered under item two (active forest management).
- Afforestation and reforestation are fairly well-developed, and could be readily handled by DNR and Ecology in recommendations to the legislature. The Workgroup decided to create a subgroup to work on this topic, although this group is expected to begin its work after the Workgroup has heard the presentation on existing forest protocols at the July 9 meeting. Nina Carter, Kevin Raymond, Michelle Connor, and Adrian Miller volunteered to participate on the afforestation/reforestation subgroup, once it is formed.
- The Workgroup agreed that category III (Other incentive programs/alternatives to offsets) should be considered "crosscutting" in the same way that category II (design principles) cuts across each project type.

Subject to these changes, the Workgroup approved the framework and principles document.

Discussion of Document “Proposed Methodologies for Use of Meeting Time”

Craig Partridge gave an overview of this document. The co-conveners and facilitator proposed a design for the group’s meetings according to the methodology outlined in the document. There are three distinct types of activity in which the group can engage:

1. Informational sessions
2. Policy issue deliberations
3. Project design.

Rather than discussing the methodology during the meeting, Workgroup members were asked to give any feedback for improvements after the meeting.

Informational/Panel Discussions

Workgroup members received informational presentations from panels on two topics followed by questions and answers. The PowerPoint presentations from the panelists are available on the Forest Sector Workgroup’s webpage (http://www.ecy.wa.gov/climatechange/2008FA_for.htm).

Information Session: Cap and Trade

Panelists:

Spencer Reeder, Ecology’s representative to the WCI offset committee, gave an overview of cap and trade system mechanics and the role of offsets in a cap and trade system. Spencer discussed WCI’s design principles and their relationship to offset design as well as some of the criteria that WCI is considering around offsets.

Alexia Kelly of Climate Trust provided additional information on offsets such as the location of the offset, the criteria that must be met for offset credibility, and the retirement of the offset. Alexia discussed the concept of additionality as it relates to offsets and the importance of proving that an offset would not have occurred without a system in place. Alexia briefly touched on institutional barriers to offsets, baselines and quantification, and the three GHG reduction project types.

Clare Breidenich, a Forestry Workgroup member with experience with EPA, the State Department, and the UN Panel on Climate Change, discussed current international efforts related to offsets. These include the Kyoto Protocol and implementation of the Clean Development Mechanism (CDM) as well as New Zealand’s efforts to incorporate forestry into a market-based system.

Information Session: Land Use Conversion

Panelists:

Ara Erickson from UW College of Forest Resources provided the Workgroup with an overview of current inventory research and trends for Washington State forest lands. The research included ownership and net flows in Eastern and Western Washington.

Doug Peters from CTED discussed the relationship between forests and the Growth Management Act (GMA). GMA has three land classifications: rural, urban, and resource. Forestry can occur on designated resource and urban land; however GMA has no direct correlation between designated forest resource land and open space resource land.

Policy Issue Deliberation – Land Use Conversion

Workgroup members engaged in a substantive discussion of land use conversion, particularly in response to the questions posed by the co-conveners:

- *In the face of land use conversion patterns and the realities of the real estate market and other markets, what is the appropriate relationship between the public's interest in controlling greenhouse gas emissions and retaining working forest lands, and forest landowners' desire to control use of their property?*
- *In this regard, what are appropriate roles for regulatory, market incentive, and information/education tools?*

Workgroup members raised the following points of discussion:

- Is the GMA getting us there in regard to preventing deforestation? Perhaps we should consider other strategies such as the transfer of development rights (TDR) or clustering/urban villages. From a GHG standpoint it would clearly be better to put development into urban areas, but there is the possibility that the market will not necessarily support that direction.
- Regulatory certainty is extremely important for members of the forestry industry, and regulations will be a necessary element of a cap and trade system. Industry also values infrastructure, in particular recommendations that encourage the use of wood and the development of wood markets for the manufacturing sector.
- Conversion imposes social costs. An ideal system would internalize that cost through both rewards and penalties.
- A group member asked the question: Why wouldn't a cap on the forest sector work? Responses were as follows:
 - Development typically occurs on ¼ and ½ acre parcels, which are at the low end of the spectrum for the forest land base. For a forest cap on carbon, the administrative requirements are real and important. Since the majority of landowners are small, the reporting requirement would be a large administrative burden.
 - Ecologically, the forest is very dynamic, there is no right amount of carbon in the forest. A cap could lead to outcomes that may be undesirable (e.g., no thinning) If a threshold is set, it would be an arbitrary point in time that would automatically create winners and losers, depending on the landowner's growing or cutting phase. Globally, forests are a net sink and the group should focus on those areas where humans are a significant factor.
- An appropriate response to conversion should be market based and informational/educational tool-based. GMA is not the best way to control growth, however urban villages and development rights transfers are promising.

- The social demographics of forest ownership are such that the next ten years will be a significant period of intergenerational transfer which should not be impeded by regulatory methods.

The Workgroup began to discuss various policy approaches to the issue of conversion with the suggestion from one member to think broadly about the opportunities created by a carbon market. For example, one approach, instead of offsets (which require additionality, etc.), would be to create a set-aside of allowances out of the cap on the regulated sector. These allowances could be given to forest landowners, who could then sell them to the regulated sector, or they could be auctioned to the regulated sector and the revenue used in some way to preserve forest. Forest landowners who benefitted from this system would have to provide some guarantee that conversion would not occur. Another member suggested that the auction revenue could be transferred into a transfer of development rights system (TDR).

During the discussion, possible drawbacks of this approach were raised by Workgroup members. One drawback to this overall approach is that it does not by itself achieve GHG emissions reductions, it merely pays someone not to emit. Another drawback is that regulated sectors are already heavily engaged in the competition for allowances, and removing allowances from the cap for distribution to non-regulated entities will evoke a strong response. A final drawback is that the prospect of auction revenues could overshadow the need to consider various funding strategies for climate programs. These strategies could include redirecting existing investments toward a cleaner energy future and pursuing creative funding strategies such as developers paying into a mitigation account that could be used by landowners to avoid conversion.

Another Workgroup member pointed out that incentivizing a landowner not to convert does not solve the issue of leakage, i.e., if one landowner is incentivized not to convert, the development will simply occur elsewhere. Another member added that regulations must exist to support incentives for the 15-20% of the population who will not choose to do the right thing.

A Workgroup member suggested that GHG mitigation is analogous to the principle of water rights. A finite universe exists for retiring or purchasing a water right, similar to a cap.

Next Steps

- **Subgroup on avoided conversion:** The Workgroup agreed that the discussion of avoided conversion and, potentially, the development of a straw proposal, should be taken up by a volunteer subgroup. Adrian Miller, Edie Sonne Hall, Steve Stinson, Cathy Baker, Michelle Connor, Clare Breidenich, Kyle Davis, Miguel Perez-Gibson, and Tim Boyd all volunteered for the subgroup. The subgroup's charge was to consider the conversion questions in general and think about potential policy proposals to bring back to the full group.

- Workgroup members were asked to send any feedback on the format of the meetings to the co-conveners or the facilitator.
- Workgroup members were asked to send names of suggested panelists for future meetings to the co-conveners or the facilitator.

Public Comment

Members of the public were given an opportunity to comment either in person or via phone:

Denise Pranger of Northwest Natural Resource Group reiterated the importance of measurement to determine Washington's contribution (or lack thereof) to climate change. Denise mentioned the importance of measuring potential loss or positive carbon sequestration as well as current carbon stocks, risk of loss, how to mitigate, and how to track over time.

The meeting adjourned at 4:15 pm.